Santa Clara Valley Water District

MEMORANDUM

FC 14 (01-02-07)

TO: Board Audit Ad Hoc Committee

FROM: Jesus Nava

SUBJECT: Management Response to Use of District Passenger Vehicles Internal Audit

DATE: May 23, 2013

At the March 12, 2013 board meeting, an internal performance management audit of the Use of District Passenger Vehicles was commissioned by the District Board of Directors.

On that date, the Board approved the Board Audit Ad Hoc Committee's recommended Board Management Audit Priority List, which included a level 1 internal performance management audit of passenger vehicle use. A level 1 audit, as defined in the District Management Audit Program plan, is a basic procedural review that includes documentation and review of policies, procedures and controls of a particular business area or activity.

In requesting this audit, the Board Audit Ad Hoc Committee expressed concerns regarding the current use of district owned passenger vehicles, and requested a review of current policies and procedures to determine if the proper procedures and management controls are in place to ensure that vehicles were used solely for business purposes and used in a matter that is efficient and in line with district needs.

The internal audit was conducted by Denise Uriarte, District Internal Auditor, between the dates of April 2, 2013 through May 10, 2013. The audit involved staff interviews and a thorough review of related policies, procedures, documents, forms and reports.

An audit exit meeting to discuss the findings and recommendations contained in the draft audit report was held with the district's Procurement and Operational Services Division Deputy Administrative Officer and Equipment Management Unit (EMU) Manager on May 20, 2013.

There was opportunity made at that meeting for the managers to provide clarifying information or make factual corrections to the draft audit report. Comments were received and minor edits to the draft report were made.

The final Use of District Passenger Vehicles Audit Report was presented to me by the District Internal Auditor on May 23, 2013.

Listed below are the key findings and recommendations from the audit report and our response:

Audit Findings / Recommendations

Strengths:

The following strengths and observations were noted in the audit report.

The district has:

- Well documented Equipment Management Unit (EMU) procedures governing vehicle and equipment use.

- Well defined roles and responsibilities between units (such as EMU, EH&S, HR) that are clearly stated and communicated in the Equipment Management Process procedure.

- Legal and safety measures, such as drug testing (Admin Procedure Ad-2.9), vehicle accident reporting forms (FC 229), and ensuring employees that check out pool or assigned vehicles for use have a valid California Drivers License on file (QEMS W640D38), are maintained and in place.

- Timely published and well organized Quarterly Vehicle Utilization Reports that are made readily available to management and staff to use to effectively manage passenger vehicle use.

Based on the conducted procedural and process audit level review of the program, the audit found the district's current procedures and practices surrounding the use of passenger vehicles, if followed, do provide the managerial controls necessary to provide a reasonable level of assurance that passenger vehicles are used in a matter that is appropriate and in line with district business needs.

Opportunities for Improvement:

The following opportunities for improvement were noted in the audit report.

1. Management Oversight / Controls

   Auditor Finding:

   The District Q630D02 Equipment Management Process requires Deputy Officer level approval for both Assigned Vehicles (page 10) and on Take Home vehicles (page 13).

   Form FC971- Authorization to Take Home District Vehicles requires signatures by the employee, unit manager, and the CEO/COO/CAO or Deputy Officer.

   FC971 forms are submitted to the Motor Pool Office by October 31 of each year. Employee must obtain renewed authorization annually. Currently, 43 district employees have authorization (either full time or part time) to take home a district vehicle.

   Auditor Recommendation:

   Due to the liability and sensitivity surrounding take home vehicles, the district may want to consider requiring BAO/COO/CAO approval on all Authorization to Take Home Vehicles (FC971) forms.

   District Management Response: **Disagree**

   The recommendation to require BAO/COO/CAO approval for take home vehicles will be taken into consideration for further review. Based on the initial review of this recommendation, the CEO felt BAO/COO/CAO approval may not be necessary. QEMS documents will be updated starting in July when temporary clerical support is available in the FY14 budget. If changes occur to the approval process based on this recommendation, the changes will occur in September.

2. Effective Utilization

   Auditor Finding:

   The criteria for justification of an assigned vehicle, as stated in the Equipment Management Process (Q630D02, pg 10) and on the Vehicle/Equipment Justification form (FC 1213A) states one criteria to be "average use above 300 miles per month or 3,000 miles per year".

In review of the March 2013 Class 1 Quarterly Vehicle Utilization report, it appears that there may be an underutilization of some assigned vehicles, based on the average monthly utilization.

Auditor Recommendation:

Recommend that the district develop a formal "minimum use" review process, whereby assigned passenger vehicles, used less than 300 miles per month on average on the Quarterly Vehicle Utilization Report, are identified by the Equipment Unit Manager, and routinely evaluated on a quarterly basis by the Deputy Officer to determine if the vehicle should be released from assignment and returned to the District motor pool, for all employee use.

District Management Response: **Agreed**

EMU Manager will develop a DAO/DOO quarterly review process that requires Deputy review and approval for continuing assigned vehicle use for vehicles operating less than 300 miles per month in accordance with QEMS policy criteria. Goal for completion is September. Continue to encourage district staff to car pool, teleconference, use public transportation and use personal vehicle mileage reimbursement at the IRS rate in accordance with QEMS policy.

3. Fleet Right-Sizing

Auditor Finding:

The District's fleet has reduced from a total of 369 vehicles in 2004 to 260 vehicles in 2013, approximately a 30% reduction over that period. One new vehicle is being added to the fleet in FY2014 to support the new Silicon Valley Advanced Purification Center.

Auditor Recommendation:

Continue to right-size fleet, as needed, to remain in line with District staffing levels and business needs. Pay close attention to utilization (and under-utilization) of vehicles to determine if reallocation of existing vehicles can occur, rather than add vehicles, as new projects and Safe Clean Water activities ramp up.

District Management Response: **Agreed**

EMU will continue to encourage district staff to car pool, teleconference, use public transportation and use personal vehicle mileage reimbursement at the IRS rate in accordance with QEMS policy. EMU staff also continue to evaluate and explore other options like "turn key" Motor Pool vehicle lease arrangements.

4. Alternative Fuel Vehicles

Auditor Finding:

29 of the 94, or approximately 31%, of the current district passenger vehicle fleet are gasoline/electric hybrid.

Auditor Recommendation:

Continue to explore the use of alternative fuel vehicles, when purchasing or replacing fleet passenger vehicles. It is acknowledged that infrastructure and premium costs must be taken into consideration when exploring the purchase of hybrids and electrics.

District Management Response: **Agreed**

Fleet will purchase an additional 12 gasoline electric hybrids in accordance with the approved FY14 district budget. This is consistent with the recently concluded Black & Veatch consultant study which recommends SCVWD continue purchasing hybrid vehicles. Staff continues to evaluate plug in electric technology as it improves and becomes more cost effective through attendance at fleet conferences, webinars, fleet manager networking, and fleet technical journals. The current capital cost of a full plug-in electric is approximately $17,000 per vehicle more, including charging infrastructure costs, when compared to a Toyota Prius hybrid.

5. Vehicle Justification Forms

Auditor Finding:

During the compliance testing phase of the audit, it was discovered that current Vehicle/Equipment Justification forms (FC 1213A) were not on file for Aaron Carmichael (Vehicle #5852), Navroop Jassal (Vehicle #5841), and Jerry Sparkman (Vehicle #5670). All of whom have assigned vehicles per the Quarterly Utilization Report.

The explanation provided was that Vehicle/Justification Forms are only on file for staff requesting assigned vehicles since the QEMS procedure was put in place (Jan. 2010) and the above employees had their vehicles assigned prior to the implementation of the new procedure.

Auditor Recommendation:

Bring all Equipment Unit records and forms up to date by requiring that a current Vehicle/Equipment Justification form (FC 1213A) be on file for all assigned vehicles. Review annually to ensure records and forms are kept up to date.

District Management Response: **Agreed**

QEMS documents will be updated for all assigned vehicles starting in July when temporary clerical support is available in the FY14 budget. The goal for completion is September.

Overall, we found the Use of District Passenger Vehicle Audit information helpful and the findings and recommendations contained within the report reasonable.

Administration will plan on implementing the audit recommendations within a reasonable time period over the next fiscal year, as staffing and resources become available.

Jesus Nava, Chief Administrative Officer

CC: Beau Goldie, Chief Executive Officer
Ravi Subramanian, Deputy Administrative Officer, Procurement and Operational Services Division
Art Taylor, Equipment Management Unit Manger
Denise Uriarte, District Internal Auditor, District Management Audit Program